

Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 IO-14 SP-03 AID-20 EB-24 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PRS-01 PA-04 USIA-15 AGR-20 SWF-02 L-03 H-03

DODE-00 DRC-01 PC-04 /215 W
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R 021208Z SEP 74

FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 1311

INFO AMCONGEN ASMARA

AMEMBASSY MOGADISCIO

AMEMBASSY NAIROBI

AMEMBASSY KHARTOUM

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E.O. 11652: N/A

TAGS: EGEN ET

SUBJECT: ECONOMIC MALAISE IN ETHIOPIAN PRIVATE SECTOR

REF: ADDIS 10360

1. BEGIN SUMMARY. PRESENT MOOD OF BUSINESS IS CHARACTERIZED BY UNCERTAINTY, PESSISISM AND TENSION AND A NUMBER OF LARGE FIRMS HAVE PRIVATELY EXPRESSED AN INTEREST IN LEAVING COUNTRY. PRIVATE INVESTMENT ACTIVITY HAS COME TO A VIRTUAL STANDSTILL. BUSINESS TURNOVER HAS DECLINED AND THERE SEEMS TO BE CONSIDERABLE RESISTANCE TO BUYING, EXCEPT FOR ITEMS SUCH AS FOOD. KEY CONSTRUCTION SECTOR ILLUSTRATIVE OF DOWNTURN. NUMBER OF PROJECTS UP FOR TENDER IS LESS THAN HALF SAME TIME LAST YEAR AND EMPLOYMENT HAS DROPPED FROM NORMAL 20,000-25,000 TO 8,000. UNEMPLOYMENT ON INCREASE IN OTHER AREAS AS WELL. SOMEWHAT SURPRISINGLY, MANUFACTURING OUTPUT APPEARS TO HAVE HELD UP AT
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1973 LEVELS. CROP FORECAST FOR COMING SEASON APPEARS GENERALLY

FAVORABLE. IMPORTS APPEAR TO HAVE INCREASED SIGNIFICANTLY DURING FIRST HALF OF YEAR AND THEN TAPERED OFF SOMEWHAT IN JULY AND AUGUST. EXPORTS GREW AT AN EVEN FASTER PACE DURING FIRST HALF OF YEAR, BUT HAVE SINCE TAPERED OFF AS WELL. FOR VARIETY OF REASONS, TOURISM, AIR AND ROAD TRAFFIC HAVE ALSO SHOWN DECLINES. END SUMMARY.

2. IN WAKE OF MORE THAN HALF YEAR POLITICAL TURMOIL AND STEADILY DECLINING ECONOMIC ACTIVITY, PRESENT MOOD OF BUSINESS IS CHARACTERIZED BY UNCERTAINTY, PESSIMISM AND TENSION. THIS IS PARTICULARLY TRUE OF EXPATRIATE COMMUNITY. BUSINESS CONFIDENCE HAS VIRTUALLY VANISHED. REFERENCES TO ETHIOPIAN SOCIALISM AS POSSIBLE PATH OF ECONOMY (E.G., SEPT 30 ADDIS SOIR) ALSO UNSETTLING. FOR FIRST TIME IN YEARS, LARGE -COMPARED TO SMALLER AND MEDIUM-SIZED - FOREIGN-OWNED FIRMS ARE SERIOUSLY TALKING ABOUT PACKING UP AND LEAVING. IN LAST FEW DAYS, TWO MAJOR FIRMS TOLD EMBASSY OFFICER THAT WERE IT NOT FOR DIFFICULTY OF TRYING TO DISPOSE OF ASSETS, THEY WOULD ALREADY BE GONE.

3. PRIVATE INVESTMENT ACTIVITY HAS VIRTUALLY GROUND TO A HALT. AN ETHIOPIAN CHAMBER OF COMMERCE OFFICIAL TOLD US THAT COMPARED TO STEADY STREAM OF INVESTMENT INQUIRIES OF LAST FEW YEARS, CHAMBER RECEIVED ONLY THREE ROUTINE INQUIRIES DURING LAST TWO MONTHS. DESPITE SEVERAL DISCLAIMERS TO CONTRARY, SEGMENTS OF BUSINESS COMMUNITY ARE STILL SOMEWHAT APPREHENSIVE ABOUT POSSIBLE NATIONALIZATION.

4. BUSINESS TURNOVER HAS CONTINUED TO DECLINE OVER PAST TWO MONTHS, WITH FALL IN CAPITAL GOODS MARKET PARTICULARLY NOTICEABLE. CONTRARY TO EARLIER EXPECTATIONS, NUMBER OF PASSENGER VEHICLES SOLD IN SEPT IS NOW EXPECTED BE LESS THAN HALF SOLD IN EITHER JULY OR AUGUST. ETHIOPIAN CHAMBER RECENTLY PROPOSED TO ITS MEMBERS THAT THEY COMPUTE TURNOVER DATA BY HAVING MEMBERS REPORT EACH MONTH TO THE CHAMBER. PROPOSAL WAS TURNED DOWN BECAUSE OF FEAR OF RECORDS BEING USED BY TAX AUTHORITIES. WHILE MONEY SUPPLY CONTINUES TO GROW, THERE SEEMS TO BE SUBSTANTIAL RESISTANCE TO BUYING, EXCEPT FOR ITEMS SUCH AS FOOD. CREDIT REMAINS TIGHT AND COMMERCIAL BANK LENDING HAS DROPPED SINCE FEBRUARY PEAK. LIMITED OFFICIAL USE

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5. ACTIVITY IN CONSTRUCTION INDUSTRY IS GOOD EXAMPLE OF WHAT IS HAPPENING. NUMBER OF MAJOR CONSTRUCTION PROJECTS UP FOR OR ABOUT TO COME TO TENDER IS LESS THAN HALF SAME TIME LAST YEAR. AS A RESULT, TOTAL EMPLOYMENT THIS SECTOR, WHICH NORMALLY RUNS 20,000-25,000, HAS DROPPED TO ABOUT 8,000. SITUATION IS FURTHER EXACERBATED BY SEVERE SHORTAGE OF CEMENT, MASSIVE CLAIMS FOR BACK PAY AND OTHER COMPENSATION, AND

AUTHORITIES' INABILITY TO SETTLE CLAIMS. GENERAL MANAGER GERMAN CONSTRUCTION COMPANY TRAPP (SEE REFTTEL) AND NOW APPARENTLY OTHERS STILL BEING REFUSED PERMISSION LEAVE COUNTRY. MANAGEMENT IS DISMAYED BY INABILITY OF GOVERNMENT TO COME TO GRIPS WITH THESE PROBLEMS. IN ABSENCE OF NEW INITIATIVES, OUTLOOK FOR COMING MONTHS APPEARS DIM, PROBABLY RESULTING IN FURTHER LAYOFFS.

6. UNEMPLOYMENT ALSO ON INCREASE IN OTHER SECTORS, INCLUDING TEXTILES AND BUILDING MATERIALS. WE UNDERSTAND THAT THE MNCD EMPLOYMENT OFFICES ARE NOW REGISTERING 700-800 PERSONS PER DAY, COMPARED TO AN AVERAGE OF 100 NOT TOO LONG AGO. MOST OF THESE ARE STREAMING IN FROM COUNTRYSIDE. ETHIOPIAN CHAMBER OF COMMERCE ESTIMATES THAT 50 PERCENT OF SCHOOL LEAVERS WILL NOT BE ABLE TO OBTAIN JOBS THIS YEAR.

7. SOMEWHAT SURPRISINGLY, MANUFACTURING OUTPUT APPEARS TO HAVE HELD UP AT 1973 LEVELS, WHICH ITSELF SHOWED A HEALTHY INCREASE OVER 1972. (THIS APPEARS TO BE BORNE OUT BY ELECTRIC POWER CONSUMPTION, WHICH IN JULY AND AUGUST WAS marginally HIGHER THAN SAME MONTHS LAST YEAR.) BECAUSE OF CURRENT SITUATION, HOWEVER, MANUFACTURING OUTPUT GENERALLY EXPECTED TO DECLINE OVER THE NEXT 3-6 MONTHS.

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FM AMEMBASSY ADDIS ABABA
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8. AS FAR AS AGRICULTURAL OUTPUT IS CONCERNED, COMING WHEAT CROP IS EXPECTED TO COVER ETHIOPIA'S DOMESTIC REQUIREMENTS, AT MINIMUM; COUNTRY STILL HAS STOCKS THAT ARE 4 YEARS OLD. WE UNDERSTAND ETHIOPIAN GRAIN CORPORATION HAS INTERVENED IN MARKET IN MODEST WAY TO SUPPORT PRICES. MAIZE AND SORGHUM CROPS LOOK FAVORABLE, WHILE COTTON AND HARICOT BEAN PRODUCTION IS EXPECTED TO BE AT RECORD OR NEAR-RECORD LEVELS. NATIONAL COFFEE BOARD'S CURRENT ESTIMATE FOR 1974/75 COFFEE PRODUCTION IS A MARKETABLE SURPLUS OF 110,000 TONS, OF WHICH 85-90 PERCENT (95-100,000 TONS) WILL BE FOR EXPORT. ASSUMING LABOR UNREST DOES NOT FLARE UP AGAIN, SUGAR PRODUCTION DURING COMING SEASON IS EXPECTED TO BE APPROXIMATELY 130,000 TONS. LAST YEAR'S CROP, WHICH WAS 14,000 TONS BELOW TARGET, APPEARS TO HAVE BEEN OVERSOLD, WITH HEAVY EXPORTS TO TFAI (IN LEGAL TRADE) AND SOMALIA (ILLEGAL). STOCKS ARE REPORTEDLY VERY LOW. DESPITE POTENTIAL, OUTLOOK FOR MEAT INDUSTRY CLOUDED BY UNCOORDINATED, POSSIBLY ISOLATED, ATTEMPTS TO STOP MEAT

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EXPORTS ON BASIS THAT IT IS NOT IN ETHIOPIA'S INTERESTS.

9. AFTER REGISTERING SIGNIFICANT GROWTH DURING FIRST HALF OF YEAR, ETHIOPIA'S IMPORTS TAPERED OFF SOMEWHAT DURING JULY AND AUGUST, BUT AGAIN APPEAR TO BE INCREASING. EXPORTS, WHICH GREW AT AN EVEN FASTER PACE THAN IMPORTS DURING FIRST HALF OF YEAR, HAVE ALSO TAPERED OFF, A NORMAL OCCURENCE AT THIS SEASON. (AT END OF MAY, EXPORTS FOR FIRST FIVE MONTHS OF YEAR AMOUNTED TO ETH\$408 MILLION OR US\$199 MILLION, WHILE IMPORTS AMOUNTED TO ETH\$223 MILLION OR US\$109 MILLION, LEAVING A NET TRADE BALANCE OF ETH \$185 MILLION OR US\$90 MILLION.)

10. FINALLY, AS FAR AS TRANSPORT AND TOURISM ARE CONCERNED, ROAD TRANSPORT ACTIVITY DECLINED AS EXPORT SEASON CAME TO AN END IN MID-YEAR. LARGELY AS RESULT PUBLICITY ETHIOPIA HAS RECEIVED IN WORLD PRESS, DOMESTIC AND INTERNATIONAL AIR TRAFFIC ALSO FELL. COMPARED TO A NET PROFIT OF ETH\$3.8 MILLION (US\$1.9 MILLION) FOR 1973, ETHIOPIAN AIR LINES WAS RUNNING AT A NET LOSS OF ETH\$6 MILLION (US\$2.9 MILLION) AT END OF JUNE, AN AMOUNT EXPECTED TO INCREASE TO ETH\$7-8 MILLION (US\$3.4-3.9 MILLION) BY YEAR-END. WERE IT NOT FOR SEVERAL PROFITABLE WET LEASES TO SAUDI ARABIA AND IRAN, ITS LOSSES WOULD BE EVEN HIGHER. TOURISM, ETHIOPIA'S FOURTH LARGEST EARNER OF FOREIGN EXCHANGE, HAS DROPPED BY 30 TO 40 PERCENT COMPARED TO SAME PERIOD LAST YEAR.

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